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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)
)
Revision to Amend Part 32, Uniform) CC Docket No. 95-60
System of Accounts for Class A and) RM-8448
Class B Telephone Companies to)
Raise the Expense Limit for Certain)
Items of Equipment from \$500 to \$750)

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NYNEX COMMENTS

The NYNEX Telephone Companies ("NYNEX")¹ file these Comments in response to the Commission's Notice of Proposed Rulemaking ("NPRM") released May 31, 1995, in the above-captioned matter.

I. BACKGROUND AND NYNEX POSITION

On March 1, 1994, USTA filed a petition for rulemaking to amend Section 32.2000(a)(4) of the Commission's Rules. USTA proposes that the Commission increase from \$500 to \$2000 the current limit for expensing, rather than capitalizing, certain items of equipment.²

In the NPRM, the Commission seeks comment on its proposal to raise the expensing limit to \$750; and on whether carriers should be permitted to amortize the undepreciated, embedded assets covered by such a rule amendment and, if so, over what

¹ The NYNEX Telephone Companies are New England Telephone and Telegraph Company and New York Telephone Company.

² The items of equipment that would be affected are in the following accounts covered by Rule 32.2000(a)(4): 2112, Motor vehicles; 2113, Aircraft; 2114, Special purpose vehicles; 2115, Garage work equipment; 2116, Other work equipment; 2122, Furniture; 2123, Office equipment; and 2124, General purpose computers. See NPRM at ¶ 1 & n. 1

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period of time.³ Under the NPRM proposal, items of equipment of \$750 or less would be expensed in the current (yearly) accounting period, while items over that amount would be capitalized and subjected to depreciation accounting and continuing property record keeping.

It is NYNEX's position that an increase of only \$250 in the expensing limit is not significant enough to achieve meaningful benefits from regulatory simplification. An expensing limit on the order of \$1500-\$2000, however, should secure those benefits, *i.e.* reduction of costs associated with carrier record keeping and with Commission monitoring processes with respect to relatively minor equipment items. The exact amount of a new expensing limit can be determined based upon an expeditious and well-focused joint federal-state study.

II. DISCUSSION

A. The Commission's Proposed Revision In The Expensing Limit Is In The Right Direction But Is Not Enough To Achieve Meaningful Benefits From Regulatory Simplification

While the Commission's proposal to increase the expensing limit from \$500 to \$750 may reflect inflation, inflation matching should be a secondary goal in this proceeding. Mere inflation matching could be accomplished more directly by utilizing a formula relating the expensing limit to the GNP-Implicit Price Deflator.

The primary goal of an increase in the expensing limit should be to recognize "the increasingly competitive environment [and] rapid changes in technology"⁴; and prevent a situation where "the accounting and administrative costs of requiring carriers to capitalize

³ *Id.* at ¶ 3.

⁴ *Id.* at ¶ 9.

assets of low dollar value [exceed] any benefit that might be realized from such capitalization.”⁵ In this proceeding, the maximum benefit can and should be achieved by raising the expensing level as high as reasonable under sound accounting practice. Sound accounting practice would probably support an expensing level on the order of \$1500-\$2000 (see Point B infra).

Any revenue requirement effect from increasing the expensing limit in this proceeding should not be substantial. The Commission notes the possibility of revenue requirement effects arising from two new expense requirements.⁶ The first (and short term) expense requirement will be the amortization, booked as depreciation expense, of the embedded investment created by the increase in the expensing level. As the Commission observes, if the amortization period equals the prescribed depreciable lives of the embedded investment, then there will be no increase in the revenue requirement associated with the embedded investment.⁷ Accordingly, in order to avoid a temporary revenue requirement increase, the Commission should permit carriers to utilize amortization periods based upon the carrier-specific prescribed depreciable lives.

The second expense requirement will be from expensing items of equipment that would have been capitalized under former rules. This will be a permanent expense requirement that, on the average, will equal the depreciation expense that would have been generated if those support assets had continued to be capitalized. One of the functions of depreciation accounting is to even out capital purchasing patterns which may

⁵ Id. at ¶ 4.

⁶ See id. at ¶ 10.

⁷ See id. at ¶ 10.

be “spiked.” However, the equipment items involved in this docket include numerous support assets of relatively low dollar amounts, where the amount of those assets is correlated with personnel levels (which are steady or declining for many carriers). These factors tend to smooth the year-to-year fluctuations as well as future increases in purchases of the support assets at issue.

Appendix A herein illustrates that, assuming appropriate lives for these assets were used in the past and that there is a minimal year-to-year increase in capital requirements, the new expense requirements on the average will equal the old depreciation expense requirements.

B. A Joint Federal-State Study Should Be Conducted To Determine The Appropriate Level Of The Expensing Limit

For carriers like NYNEX to benefit from a meaningful increase in the expensing level, the states must be involved. If the FCC were to set a new expensing limit not recognized by NYNEX’s state commissions for intrastate regulatory purposes, then we would be left with a net increase in regulatory requirements and not uniform simplification. Instead of the prospect of dual but conflicting regulatory requirements, the efforts in this docket should strive for harmony among jurisdictions.

Accordingly, NYNEX proposes for consideration a joint federal and state study that could determine a uniform increase in the expensing level (in effect, a support asset redefinition) that is meaningful and comports with sound accounting practice. An expensing limit of \$1500-\$2000 would be targeted, but a higher amount might be supported. The study could focus on the benefits that can be gained from this change, and not be limited to the practices of telephone carriers. Instead, the study would focus

on the capital/expense decision criteria and record keeping practices of American industry in general, and include LEC competitors and similarly situated entities such as interexchange carriers, competing local exchange carriers (or alternate access providers), cable operators, etc. Matters to be studied with respect to the increase in expensing limit would include (for telephone carriers and, perhaps, to a lesser extent, for other entities):

- typical lists of items that would be expensed;
- internal administration of support assets inventory;
- reliance on data bases supporting assets;
- estimates of the number of items affected; and
- financial considerations (from increased expenses, amortization of embedded investment, reduction in rate base, reduction in depreciation, etc.)

Overall, such a study would offer an opportunity for federal and state regulators to redefine the basic level of assets that for regulatory purposes must be recorded in Part 32 support asset accounts. Regulators will be able to reduce the amount of their resources devoted to oversight of small equipment items. At the same time, cost saving efficiencies by carriers will be realized, and effective management of support assets will be maintained -- all redounding to the benefit of the public.

Furthermore, the work efforts of such a study would need to be reasonably and realistically defined in a way that ensures the study can be completed on a relatively fast track basis. The benefits from raising the expensing limit should be secured sooner rather than later.

If the Commission proceeds with this course, then its proposed \$250 increase in the expensing limit need not be adopted. Such a small increase would entail detailed

accounting and amortization revisions that would need to be undone upon adoption of a meaningful, significant increase following a successful federal-state study. In all events, the Commission's proposed \$250 increase would probably need to be reconsidered and changed within a relatively short time frame, while longer term relief could be achieved based upon the study approach offered herein by NYNEX.

III. CONCLUSION

The FCC should increase the expensing limit for support assets at least to \$1500-\$2000 based upon a joint federal-state study that could be undertaken and completed in the near term.

Respectfully submitted,

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Appendix A

A hypothetical account with an \$1,000 asset added each year,
straight line depreciated over ten years, with no growth or inflation.

		Yearly Depreciation Expense														
Year Asset	Added															
1		100	100	100	100	100	100	100	100	100	100					
2			100	100	100	100	100	100	100	100	100	100				
3				100	100	100	100	100	100	100	100	100	100			
4					100	100	100	100	100	100	100	100	100	100		
5						100	100	100	100	100	100	100	100	100	100	
6							100	100	100	100	100	100	100	100	100	100
7								100	100	100	100	100	100	100	100	100
8									100	100	100	100	100	100	100	100
9										100	100	100	100	100	100	100
10											100	100	100	100	100	100
11												100	100	100	100	100
12													100	100	100	100
13														100	100	100
14															100	100
15																100
Total		100	200	300	400	500	600	700	800	900	1000	1000	1000	1000	1000	1000
Capital Cost	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
of Asset																

This example demonstrates that in an ongoing business, the depreciation expense of an account tends to approach the yearly capital cost of the assets added to that account, providing that the depreciation life is appropriate. By the tenth year, the depreciation expense equals the yearly asset cost.